JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 41A October 27, 1989

JAPAN'S FOREIGN AID POLICY: 1989 UPDATE

Summary

Japan has remained the world's number-two aid donor since 1986, unable to bump the United States from the top position despite dramatically higher foreign aid expenditures in the last two years. Tokyo appears anxious to become the world's largest aid provider and has sought to make its clout in international financial organizations commensurate with Japan's economic standing. The slow progress of these bids is partly attributed to other nations seeking to understand Tokyo's foreign aid vision -- how it plans to be the point man on economic assistance to developing countries. Other nations expect Japan to take leadership responsibilities in tandem with its significant monetary outlays. The United States, too, has some adjustments to make if Japan is to exercise more leadership.

Overview of Japan's Aid Policies

Japan has used its own development experience as a guide to its approach in helping Third World countries. At the end of World War II Japan's devastated economy resulted in the nation being classified as developing. With money borrowed from the World Bank and the United States, Japan rebuilt its infrastructure, now considered a key to its rapid industrialization.

The origins of Japan's foreign aid program were in its payments of war reparations to Asian nations from the mid-1950s through 1965. Until the first oil shock in 1973 Tokyo extended assistance to encourage economic interdependence but also to promote Japanese exports. The aid, primarily to Asia, had strings attached; recipient nations were required to spend the money on

Japanese products rather than seeking the lowest-priced item on the world market. This earlier policy of linking aid with the expansion of overseas markets still colors international perceptions of Tokyo's aid program.

The two oil crises of the 1970s made Japan feel particularly vulnerable and forced it to look beyond its traditional links with Asia toward strengthened ties with resource-rich developing countries, particularly those in the troubled Middle East. By bolstering its dealings with a diverse group of nations, Japan was better able to ensure a continuing supply of vital natural resources. Tokyo devised a strategy where its aid would be divided according to a 7-1-1-1 goal: 70 percent of its funds for Asia, with the remaining 30 percent split evenly among the Middle East, Africa and Latin America. Then as now, the bulk of Japan's money was allocated to Asia, partly because the region has a highly concentrated population of poverty-stricken people and partly because of traditional links to the region.

During the 1980s Japan added a "basic human needs" approach to its foreign aid philosophy in an effort to move away from large-scale infrastructure projects and to counter arguments that Tokyo's programs were largely export-oriented. The concept, announced by then Prime Minister Zenko Suzuki, targeted four key sectors: rural and agricultural development, renewable energy resources, human resource development and small to midsized businesses.[1] Additionally, more funds were made available for emergency and disaster relief.

Japan began a series of aid-doubling plans in 1977. The first plan aimed to increase annual aid disbursements to twice the 1977 level within a five-year period. The goal was more than met when funding soared from $1.4 billion in 1977 to $3.3 billion in 1980. After the success of the original plan Tokyo set another aid-doubling target for the 1981-85 period. The goal of distributing $21.4 billion over these five years fell short due in part to slow domestic growth and the government's new policy of fiscal austerity. Despite the shortfall Japan remained committed to strengthening its economic assistance and announced a third aid-doubling plan in 1985 to run over seven years and disburse more than $40 billion. Encouraged largely by the sharp appreciation of the yen and continued trade surpluses with much of the world, the government in early 1987 shortened the aid-doubling time frame to the 1986-90 period. In addition, former Prime Minister Noboru Takeshita increased the target to $50 billion during the June 1988 economic summit of leading industrialized nations.

Changing Motivations and Criticisms

Japan's success in increasing its foreign aid over the last 10 years (see Table 1) has been an unrivaled accomplishment. But as international political pressures bear down on the country, the government finds it is no longer sufficient just to give money in large quantities. Nor does Tokyo want to be

[1]William Brooks and Robert Orr Jr., "Japan's Foreign Economic Assistance," Asian Survey, XXV, No. 3 (March 1985), p. 323.

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

Table 1: Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1984-88

(in millions of dollars)

Type of Transaction	1984	1985	1986	1987	1988	Percent Change 1987-88
Official Development Assistance	$4,319	$3,797	$5,634	$7,454	$9,134	22.5%
Change Over Previous Year	14.8%	-12.1%	48.4%	32.3%	22.5%	
ODA/GNP Ratio	0.34%	0.29%	0.29%	0.31%	0.32%	
Bilateral Assistance	2,427	2,557	3,846	5,248	6,422	22.4%
Grants	1,064	1,185	1,703	2,221	2,908	30.9%
Grant Assistance	543	636	855	1,154	1,483	28.5%
Technical Assistance	521	549	849	1,067	1,425	33.6%
Development Lending and Capital	1,363	1,372	2,143	3,027	3,514	16.1%
Grants, Capital Subscription and Loans to Multilateral Agencies	1,891	1,240	1,788	2,207	2,712	22.9%

Notes: 1. Net disbursement basis.
2. Due to rounding, the figures do not necessarily add up to the totals.

Source: Ministry of Foreign Affairs

merely a silent financier. Japan has been clamoring to take a leading role in the International Monetary Fund; it already is a major power behind the Asian Development Bank and ranks second at the World Bank. The international community, as well, is placing more demands on Japan to supply leadership in addition to money for economic development.

Greater economic clout means not only having a say in international development and economic policymaking but accepting the responsibilities of seeing that an aid philosophy is presented and carried out. As Japan sits poised to be the world's top aid donor, several key issues loom. While Japan has the money to help developing nations, is it willing to take on the responsibilities? Without a clearer aid philosophy that can be explained to the world, can Japan rally support for new trends in aid? If Japan is willing to help, are other countries, particularly the United States, willing to share power?

Japan defines its foreign aid philosophy as trying to help Third World countries develop economic self-sufficiency and stability. In this sense Tokyo prefers the use of loans to grants, a practice that has drawn criticism because most donor nations consider grant aid to be of higher quality (see below). Other criticisms of Japan's aid program stem from suspicions that its motives may be commercial, not humanitarian -- though all countries use aid to some extent to further their foreign policy agenda. Japan continues to combat an image of using aid for export promotion, a reflection of the early years of its foreign aid program and an image that it shares with France. Even the quantity of aid has engendered critical comments from those who say that the amount of aid does not meet expectations given Japan's economic strength and its decision to promote aid as a form of global security.

The most common criticism of Japan's aid program is that it serves the interests of Japanese companies. Tokyo's aid policy in the 1960s and early 1970s did promote the export of Japanese products to developing countries through the use of tied aid, which forced recipients to purchase goods and services from Japanese companies. Although today Japan's aid is considered to be approximately 71 percent untied, many critics believe that the way Japan administers its program results in Japanese contractors having an edge. Under Tokyo's request-only policy, foreign governments propose projects for funding by Japan. But because many developing countries do not have sophisticated government bureaucracies or people with the technical expertise to draft a well-documented proposal, Japanese consultants/contractors write up a project prospectus and submit it on behalf of the foreign government. The upshot is that the Japanese firm having done the preliminary work usually wins the contract. Since 1986, however, there has been more international bidding for projects. Moreover, the Japanese government cosponsored two conferences in 1989 to advise American companies on how to win contracts for Tokyo's aid projects (see below).

Other critics of Japan's aid motives point to the somewhat confusing manner in which the country's aid figures are reported and question Tokyo's intentions. They wonder whether Japan's goal simply is to capture the number-one donor position rather than fulfill the leadership duties of the top foreign aid player. Robert Orr Jr., a professor at Temple University-Japan, recently criticized the confusing presentation of Japan's aid figures, which give the impression of mixing official development assistance with private-sector efforts. But some foreign analysts also contend that Tokyo adds to the melee.

Combining the statistics of ongoing and new programs under the name of a new initiative -- for example, the melding of the third and the fourth aid-doubling plans -- makes the goal appear larger than the extra funds committed.

Yet another criticism is that Japan's gross national product could support far more aid than Tokyo currently allots. Hiroshi Okuma, a professor at Seijo University, has said, "The world expects -- and demands -- that Japan commit itself to helping to an extent commensurate with its ability and directly bear the costs involved. The community of nations has repeatedly voiced criticism of Japan's low ODA/GNP and grants/ODA ratios."[2] Tokyo says that it is committed to raising Japan's ODA/GNP ratio to the average of the Development Assistance Committee members of the Organization of Economic Cooperation and Development. Yet, in 1988 Japan remained 12th among the 18 DAC members, giving 0.32 percent of GNP -- below the 1988 DAC average of 0.35 percent of GNP (see Tables 2 and 3).

Increasingly critics say Japan should take the lead in every sense if it is to assume the number-one donor position it has been pushing to achieve. "One of the most important responsibilities is that Japan has to be charged with the maintenance of the current international official development assistance regime," says Tokyo University professor Takeshi Igarashi.[3] As international expectations about the effectiveness of Japanese aid increase in tandem with the amount of aid given, Tokyo no longer can satisfy critics by saying that it is working on improving programs. In conjunction with foreign aid, Japan -- using a mixture of public/private assistance -- is taking the lead in helping to recycle Third World debt through plans proposed by former Finance Minister Kiichi Miyazawa and Treasury Secretary Nicholas Brady.

Quality Not Just Quantity

As a leader Japan cannot afford to take a passive stance. Although Japan was the number-two aid donor in 1988 with $9.1 billion disbursed in the form of grants, loans, technical cooperation and funding for multilateral organizations, the quality of its aid has been criticized as not keeping pace. Quality in aid relates both to form and how it is administered. For example, grants usually are considered to be of higher quality than loans. But while bureaucrats in Japan acknowledge that grant aid needs to be increased, grants as a portion of ODA fell in 1988. Also, despite the meteoric increase in aid disbursements, the number of personnel administering development grants and loans has remained low.

Yasuhiko Torii, a Keio University professor, believes that Japan's focus on loans is appropriate for countries whose needs are shifting (see Table 4). Loans on concessional terms work well for many Asian countries that are beginning to industrialize and build infrastructure, he suggests. Grants are more important when they can be used to alleviate poverty. Critics charge that Japan

[2]Hiroshi Okuma, "Japan in the World: The Capital Recycling Programme," Trocaire Development Review 1988, p. 82.

[3]Takeshi Igarashi, "The Japan Problem: How To Use the World's Largest ODA Budget?" Speech to the U.S.-Japan Forum at the Johns Hopkins University School of Advanced International Studies, April 12, 1989.

Table 2: ODA of Major Donor Countries, 1984-88

(in millions of dollars)

1988 Rank	Country	1984	1985	1986	1987	1988*	Share of Total DAC ODA 1988*
1	United States	$8,711	$9,403	$9,564	$8,945	$9,777	20.5%
2	Japan	4,319	3,797	5,634	7,454	9,134	19.2
3	France**	3,788	3,995	5,105	6,525	6,959	14.6
4	West Germany	2,782	2,942	3,832	4,391	4,700	9.9
5	Italy	1,133	1,099	2,403	2,615	3,012	6.3
6	United Kingdom	1,418	1,530	1,737	1,871	2,615	5.5
7	Canada	1,625	1,631	1,695	1,885	2,340	4.9
DAC Total		28,686	29,429	36,653	41,535	47,583	100.0

*Preliminary.
**Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

Table 3: ODA as Percentage of GNP for DAC Countries, 1984-88

(in millions of dollars)

1988 Rank		1984		1985		1986		1987		1988*		Percent Change 1987-88*
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	
1	Norway	$543	1.02%	$574	1.01%	$798	1.20%	$890	1.09%	$988	1.12%	11.0%
2	Netherlands	1,268	1.02	1,136	0.91	1,740	1.01	2,094	0.98	2,231	0.98	6.5
3	Denmark	449	0.85	440	0.80	695	0.89	859	0.88	922	0.89	7.3
4	Sweden	741	0.80	840	0.86	1,090	0.85	1,375	0.88	1,534	0.87	11.6
5	France**	3,788	0.77	3,995	0.78	5,105	0.72	6,525	0.74	6,959	0.73	6.7
6	Finland	178	0.36	211	0.40	313	0.45	433	0.49	610	0.59	40.9
7	Canada	1,625	0.50	1,631	0.49	1,695	0.48	1,885	0.47	2,340	0.50	24.1
8	Australia	777	0.46	749	0.48	752	0.47	627	0.34	1,091	0.46	74.0
9	Belgium	433	0.56	440	0.55	549	0.49	685	0.48	592	0.39	-13.6
9	West Germany	2,782	0.45	2,942	0.47	3,832	0.43	4,391	0.39	4,700	0.39	7.0
11	Italy	1,133	0.33	1,098	0.31	2,404	0.40	2,615	0.35	3,012	0.37	15.2
12	Japan	4,319	0.35	3,797	0.29	5,634	0.29	7,454	0.31	9,134	0.32	22.5
12	Switzerland	286	0.30	302	0.31	422	0.30	547	0.31	615	0.32	12.4
12	United Kingdom	1,418	0.33	1,530	0.33	1,750	0.32	1,887	0.28	2,615	0.32	38.6
15	New Zealand	55	0.25	54	0.25	75	0.30	87	0.26	104	0.27	19.5
16	Austria	181	0.28	248	0.38	198	0.21	201	0.17	302	0.24	50.2
17	Ireland	35	0.22	39	0.24	62	0.28	51	0.19	57	0.20	11.8
17	United States	8,711	0.24	9,403	0.24	9,564	0.23	8,945	0.20	9,777	0.20	9.3
DAC Total		28,686	0.36	29,429	0.35	36,653	0.35	41,535	0.34	47,583	0.35	14.6

*Preliminary.
**Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

Table 4: Japan's Bilateral ODA by Recipient Countries' GNP Per Capita Classification

(in millions of dollars

GNP Per Capita	1986		1987		1988	
LLDCs	$577.6	15.0%	$988.2	18.8%	$1,186.9	18.5%
LICs	1,795.6	46.7	2,264.9	43.2	3,566.7	55.5
LMICs	908.3	23.6	1,005.2	19.2	791.7	12.3
UMICs	165.0	4.3	384.3	7.3	227.3	3.5
NIEs	134.0	3.5	158.7	3.0	160.4	2.5
OPEC	33.5	0.9	122.3	2.3	19.6	0.3
Other	232.1	6.0	324.1	6.2	469.3	7.3
Total	3,846.2	100.0	5,247.6	100.0	6,421.9	100.0

LLDC: Least Developed Country
LIC: Low Income Country
LMIC: Lower Middle Income Country
UMIC: Upper Middle Income Country
NIE: Newly Industrialized Economy
OPEC: Organization of Petroleum Exporting Countries

Source: Ministry of Foreign Affairs

should provide more grants to help the least developed countries, such as those in Africa. Giving loans to debt-laden countries in Africa and Latin America may increase their debt service without increasing their ability to repay. Further, some critics believe that Japanese loans to countries on the verge of becoming newly industrialized economies may primarily increase business opportunities for Japan.

Japan, in part to quell international criticism of its aid policies, significantly increased aid to Africa in 1988, boosting it to 13.8 percent of total bilateral aid or $884 million from 9.8 percent or $516 million in 1987. Former Prime Minister Sosuke Uno also announced in July 1989 at the economic summit of industrialized nations that Japan will commit an additional $600 million to sub-Saharan Africa over the next two years. Japan does not have strong business links with Africa so its aid policies there are considered humanitarian and a prime example of what Tokyo could do as an aid leader.

The portion of Japan's aid going to Central and South America dropped in 1988 to 6.2 percent of bilateral ODA from 8 percent; the amount in dollar terms also declined, falling from $418 million to $399 million. But numerous opportunities for aid await. Mexico is hoping for an infusion of funds to combat Mexico City's severe air pollution problems.

Japan's efforts to increase the quality of aid are hampered by the bureaucracy that administers it. Four lead agencies -- Foreign Affairs, Finance, International Trade and Industry and the Economic Planning Agency -- work in conjunction with at least a dozen other organizations, including the Japan International Cooperation Agency, which coordinates technical cooperation, and the Overseas Economic Cooperation Fund, which administers concessional loans.

Efforts to name a foreign aid minister, who would have authority over all departments involved, have failed thus far. Ministries and agencies are left without a unifying leader and that leaves the door open for turf battles. However, the Foreign Ministry continues to exert the greatest influence on policy-making, particularly that involving aid as a foreign policy tool -- for example, burdensharing.

Beyond the interagency scuffles is the problem of a shortage of program administrators. While foreign aid has been one of the few discretionary spending programs exempt from the "zero ceiling" on budget increases, this waiver has not extended to hiring. In part, though, the shorthanded staff reflects Japan's continued preference for large infrastructure projects (see Table 5), which require sizable amounts of money but less administrative work and few technical overseers from JICA. Similarly, loans generally take fewer personnel hours to administer than a grant of equal size. Although the ministries and agencies involved in Japan's economic assistance program would like to increase the staff working on aid, obtaining additional funds and properly training personnel could be a slow process.

Another area confounded by a shortage of personnel and the apparent lack of an overriding policy objective is the environment. This newly emphasized topic in foreign aid policy -- perhaps best symbolized by efforts to protect rain forests and counteract global warming -- finds industrialized nations and international agencies considering ways to help developing countries progress without endangering precious natural resources. At the economic summit in July Japan announced a special allocation -- $2.25 billion to be given over the FY 1989-FY 1991 period -- to protect the environment (see Table 6).

Japanese aid administrators are concerned about the environmental impact of their work; JICA officials, for example, would like to see environmental considerations taken into greater account both during preliminary work and afterward. One important difference between the United States and Japan is that the Agency for International Development generally requires an environmental impact study to be conducted for projects. JICA and OECF have established guidelines for environmental assessments but are lagging behind in implementation because of shortages of technical personnel.

Environmental groups also are applying more pressure on the World Bank and other lending agencies to improve their environmental review. Criticism of Japan has been particularly strong on occasions when Tokyo has considered funding a project that the World Bank rejected for environmental protection reasons. For example, although Tokyo has denied that it contemplated funding a Brazilian dam rejected for World Bank funding, Brazilian representatives at an environmental conference in Japan raised the issue to criticize Japan's foreign aid policies.

Similarly, Japan is still accused of being a destroyer of rain forests because it imports timber that Malaysians and others have cut. In particular, JICA has come under fire from environmentalists for its role in building a logging road in a part of Sarawak, where local protesters have disrupted logging operations at various times since 1987.

The problem of environmental review is twofold. Developed countries' concerns about the environmental impact of aid projects can create resentment

Table 5: Japan's Bilateral ODA by Sector, 1987-88*

(in millions of dollars)

	1987	1988	Change 1987-88	Distribution 1987	Distribution 1988
Social Infrastructure	$1,029.1	$1,975.7	92.0%	14.0%	16.0%
Education	452.9	573.0	26.5	6.2	4.7
Health	162.1	250.5	54.5	2.2	2.0
Water Supply and Sanitation	191.7	719.1	275.1	2.6	5.8
Population	7.2	8.4	16.8	0.1	0.1
Public Administration	6.7	8.8	30.9	0.1	0.1
Development and Planning	39.1	44.6	14.2	0.5	0.4
Other	169.5	371.5	119.2	2.3	3.0
Economic Infrastructure	3,613.5	4,856.8	34.4	49.2	39.4
Transportation	1,679.3	1,525.6	-9.1	22.9	12.4
Communications	389.3	725.8	86.4	5.3	5.9
River Development	18.3	95.6	421.9	0.2	0.8
Energy	1,326.5	1,632.5	23.1	18.1	13.2
Other	200.2	877.4	338.3	2.7	7.1
Production Sector	1,107.6	2,383.9	115.2	15.1	19.3
Agriculture	662.6	1,133.5	71.1	9.0	9.2
Mining, Industry and Construction	399.2	1,157.4	189.9	5.4	9.4
Production	165.4	558.7	237.8	2.3	4.5
Resource Development	104.7	64.7	-38.2	1.4	0.5
Construction	0.4	310.0	836.8	0.0	2.5
Trade, Banking and Tourism	24.3	93.0	282.0	0.3	0.8
Multisector	103.1	132.1	28.1	1.4	1.1
Subtotal	5,853.3	9,348.5	59.7	79.7	75.9
Planning Aid	1,048.0	1,980.9	89.0	14.3	16.1
Structural Adjustment	26.3	31.2	18.8	0.4	0.3
Merchandise Aid	919.5	655.5	-28.7	12.5	5.3
Debt Relief	116.1	337.0	190.3	1.6	2.7
Food Aid	93.1	66.5	-28.6	1.3	0.5
Emergency Aid (excl. food aid)	2.6	18.6	625.0	0.0	0.2
Aid for Private International Organizations	1.9	2.4	24.2	0.0	0.0
Administrative Expenditures	214.4	266.0	24.1	2.9	2.2
Unspecified	13.3	306.0	220.8	0.2	2.5
Total	7,342.6	12,325.8	67.9	100.0	100.0

*Commitment basis.

Source: Ministry of Foreign Affairs

Table 6: Japan's Bilateral Assistance in Environmental Sector, 1983-87

(in millions of dollars)

Fiscal Year	Grants		Loans	
	Amount	Share*	Amount	Share**
1983	$30.7	9.0%	$82.8	3.4%
1984	35.8	9.9	197.3	11.2
1985	61.8	15.4	309.0	14.6
1986	81.4	13.2	36.0	1.8
1987	132.5	15.0	130.5	3.7

*Share in total grants.
**Share in total loans.

Source: Ministry of Foreign Affairs

in developing countries. Likewise, accusations of exploitation can loom if a proper regard for ecology is not shown by the developed-country donor. Dealing with internal conflicts complicates decisionmaking for aid donors -- especially if there is no overall guideline governing disbursements. Just as Tokyo has had trouble living down its image of giving aid for export promotion, the government has made little progress in improving international opinion of its environmental policies, including those related to foreign aid.

1988 Highlights

In an effort to raise its position in the international economic arena to one more in line with its impending status as the world's top aid donor, Japan has actively bid for a greater role in the IMF and has quietly sought a permanent seat on the United Nations Security Council. But its efforts have been thwarted thus far. Increased visibility in helping resolve Third World debt problems may have helped Japan advance its goals, but its latest bid in September to gain an increase in its IMF quota remains unresolved (see JEI Report No. 38B, October 6, 1989). Although Japan currently is number two at the World Bank, the United States appears to be dragging its feet on the IMF quota issue as it struggles to cope with Japan in the context of powersharing. The IMF would like a capital increase to meet the demands of the 1990s and the next century -- especially to implement the Brady Plan for Third World debt relief -- but some American leaders have expressed concern that the IMF has not sufficiently explained its long-term vision to warrant new funds.

As Japan grapples to obtain more multilateral recognition for its foreign aid program, the figures keep advancing. In 1988 Japanese aid as a percentage of GNP edged up to 0.32 from 0.31. Japan disbursed $9.1 billion compared with a preliminary $9.8 billion by the top-ranked United States, which gave a mere 0.20 percent of GNP (Tables 2 and 3). (According to recently revised data, U.S. foreign aid totaled $10.1 billion last year.) The DAC average was 0.35 percent, up from 0.34 in 1987. Japan ranked 12th in ODA/GNP alongside Switzerland and the United Kingdom. The United States pulled up the rear, joining Ireland in last place among DAC members. The Scandanavian countries again topped the list in terms of ODA/GNP. Only Norway gave more than 1 percent of

its GNP for economic assistance in 1988. However, the United States remained the largest donor in absolute terms. Washington contributed 20.5 percent of the funds distributed by DAC members last year, while Japan gave 19.2 percent. France's donations also put it in double-digits, coming in at 14.6 percent.

While Japan's official development assistance increased 22.5 percent in dollar terms last year, the increase in yen terms was a modest 8.6 percent or from nearly Y1.1 trillion to just under Y1.2 trillion. Bilateral grants increased 16 percent in yen terms compared with a 30.9 percent rise in dollar terms (Table 1). Although there was an increase in the amount of grant aid, grants as a portion of ODA fell. The grant share (calculated on a commitment basis rather than the disbursement basis used in the tables) and the overall grant element declined to 36.3 percent and 73.2 percent, respectively, from 1987's levels of 47.3 percent and 75.4 percent. Tokyo attributed the higher grant level in 1987 to a capital subscription to the Inter-American Development Bank of $1.17 billion compared with a 1988 regular contribution of $5 million. The decline in the grant element was said to be due to a 71 percent increase in loan commitments in 1988.

The percentage of Japan's aid going to Asia decreased slightly to 62.8 percent from 65.1 percent in 1987, although the dollar amount expanded from $3.4 billion to $4 billion last year (see Table 7). Only one of the top 10 recipients -- Egypt in the tenth spot -- was not Asian (see Tables 8 and 9). Indonesia was again the top aid recipient with $985 million, while the Philippines took third place, receiving $535 million. Thailand, which got $361 million in foreign aid, came in fourth. Funding for members of the Association of Southeast Asian Nations fell in relative terms (down from 32 percent to 29.9 percent), but in absolute terms it rose to $1.9 billion from $1.7 billion in 1987. Three ASEAN countries, one less than two years ago, were among the top 10 recipients. China, the second-largest aid recipient in 1988 with $674 million in grants and loans, can expect a drop in its position this year since aid disbursements were postponed as a result of the military crackdown on prodemocracy student demonstrations this past summer. The primary beneficiaries of the decline in the relative amount of aid going to Asia were African nations, which, as mentioned, received 71.3 percent more money last year.

Trends for Cooperation

As Japan edges toward leadership in foreign aid in the monetary sense, there is much it can learn from the experienced United States -- provided the door for cooperation is open. For example, although Japan may be weak in terms of personnel, AID is rife with experienced staff caught by a slowdown in aid funding due to budget constraints. Although personnel exchanges have been discussed, no agreements between AID and its counterparts in Japan have been reached.

Last spring AID and OECF sponsored conferences in California and Florida to discuss ways American businesses could win more contracts for Japanese foreign aid projects. Many American businesses complain that non-Japanese firms are shut out of Japan's projects. Resentments on Capitol Hill run so high that legislators have reapproved the Export-Import Bank's "war chest," which tries to combat the use of tied-aid or mixed export credits (the practice of providing subsidized export credits linked to export purchases from the donor country).

Table 7: Japan's Bilateral ODA by Region, 1984-88

(in millions of dollars)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocable
1984	$2,427 (100.0%)	$1,594 (65.7%)	$249 (10.3%)	$211 (8.7%)	$229 (9.4%)	$1 (0.0%)	$25 (1.0%)	$117 (4.8%)
1985	$2,557 (100.0%)	$1,732 (67.8%)	$201 (7.9%)	$252 (9.9%)	$225 (8.8%)	$1 (0.0%)	$24 (0.9%)	$122 (4.8%)
1986	$3,846 (100.0%)	$2,494 (64.8%)	$340 (8.8%)	$418 (10.9%)	$317 (8.2%)	$2 (0.1%)	$55 (1.4%)	$221 (5.7%)
1987	$5,240 (100.0%)	$3,416 (65.1%)	$526 (10.0%)	$516 (9.8%)	$418 (8.0%)	$2 (0.0%)	$68 (1.3%)	$302 (5.8%)
1988	$6,422 (100.0%)	$4,034 (62.8%)	$583 (9.1%)	$884 (13.8%)	$399 (6.2%)	$4 (0.1%)	$93 (1.4%)	$425 (6.6%)

Note: Net disbursement basis.

Source: Ministry of Foreign Affairs

Table 8: Major Recipients of Japan's ODA, 1984-88

(in millions of dollars)

1984		1985		1986		1987		1988	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
China	$389	China	$388	China	$497	Indonesia	$707	Indonesia	$985
Malaysia	245	Thailand	264	Philippines	438	China	553	China	674
Thailand	232	Philippines	240	Thailand	260	Philippines	379	Philippines	535
Indonesia	168	Indonesia	161	Bangladesh	248	Bangladesh	334	Thailand	361
Philippines	160	Burma	154	Burma	244	India	304	Bangladesh	342
Bangladesh	123	Malaysia	126	India	227	Thailand	302	Pakistan	302
Burma	95	Bangladesh	121	Indonesia	161	Malaysia	276	Myanmar*	260
Egypt	81	Pakistan	93	Pakistan	152	Burma	172	Sri Lanka	200
Pakistan	67	Sri Lanka	84	Sri Lanka	127	Turkey	162	India	180
Sri Lanka	64	Egypt	73	Egypt	126	Pakistan	127	Egypt	173

*Formerly known as Burma.

Note: Net disbursement basis.

Source: Ministry of Foreign Affairs

Table 9: Major Recipients of ODA, 1987

(percent of total ODA by donor country)

Japan		United States		All DAC Countries	
Indonesia	8.6%	Israel	15.8%	Israel	4.1%
China	7.1	Egypt	11.3	Egypt	4.0
Philippines	6.4	El Salvador	3.2	India	3.3
India	4.7	Philippines	3.1	Indonesia	3.0
Thailand	4.6	Pakistan	2.1	Bangladesh	2.1
Bangladesh	4.2	Pacific Islands	2.0	Philippines	2.1
Burma	3.1	Honduras	1.7	China	1.9
Malaysia	2.9	India	1.6	Pakistan	1.7
Korea	2.3	Bangladesh	1.6	Tanzania	1.6
Pakistan	2.2	Costa Rica	1.5	Reunion	1.2
Egypt	1.8	Sudan	1.3	Thailand	1.2
Sri Lanka	1.8	Guatemala	1.2	Turkey	1.1
Turkey	1.7	Indonesia	1.0	Sudan	1.1
Nepal	1.0	Jamaica	1.0	Kenya	1.1
Brazil	0.9	Bolivia	1.0	Mozambique	1.0
Kenya	0.8	Peru	0.9	Sri Lanka	0.9
Mexico	0.8	Haiti	0.9	Somalia	0.9
Sudan	0.7	Morocco	0.8	Morocco	0.9
Zambia	0.7	Jordan	0.8	Martinique	0.9
Iraq	0.7	Somalia	0.7	El Salvador	0.9
Bolivia	0.6	Turkey	0.6	Ethiopia	0.9
Paraguay	0.6	Mexico	0.6	Senegal	0.9
Tanzania	0.5	Sri Lanka	0.6	Zambia	0.9
Peru	0.5	Dominican Republic	0.6	Zaire	0.8
Honduras	0.5	Portugal	0.5	Malaysia	0.8
Subtotal	59.7	Subtotal	56.2	Subtotal	39.2
Multilateral	26.9	Multilateral	19.7	Multilateral	25.2
Unallocated	3.9	Unallocated	13.6	Unallocated	10.9
Total ODA*	$7,425	Total ODA*	$9,913	Total ODA*	$41,406

*In millions of dollars.

Source: Organization for Economic Cooperation and Development, Development Cooperation: 1988 Report.

Projects like the multilateral aid initiative in the Philippines or new plans for countries like Nepal may prove a testing ground for Japan-U.S. cooperation efforts. Tokyo, however, may not want to enter into too many joint projects for fear of being subsumed by this country's agenda and strategic aid policy.

Conclusion

Japan faces numerous challenges now that its foreign aid rivals that of the United States in amount. Rapid expansion has overburdened the bureaucracy

that must administer programs. Technical cooperation is a particularly weak link. Critics continue to lambaste Tokyo for providing low quality aid, favoring loans over grants, and for using aid as a tool to expand overseas markets -- criticism that Japan has been unable to dispel. How Japan deals with these and related problems and how rapidly improvements can be realized will have a great impact on the developing world. Increased cooperation between Japan and the United States will be ever more important as each nation has specific strengths and interests.

Pressed by Washington to shoulder more of the responsibilities of burdensharing, Japan has decided to make foreign aid its contribution to world security and stability. But as Julia Chang Bloch, former assistant administrator for the Asia and Near East Bureau of AID, recently said, "Japan . . . has staked its international credibility on the success of its aid program. Money, however, does not automatically confer credibility. Leadership is required, but Japan has yet to decide that it can or wants to lead."[4]

When Japan does become the leading aid donor in terms of disbursements within the next year or two, criticism can be expected to rise. Both recipient nations and donor countries will be looking to Japan to take a conceptual lead on development issues in the world, not just in Asia. The international aid community is waiting to see a more explicit Japanese vision of its foreign aid regime.

For further information, contact Gretchen Green.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

[4]Julia Chang Bloch, "A U.S.-Japan Aid Alliance: Prospects for Cooperation in an Era of Conflict," USJP Occassional Paper 89-07, Program on U.S.-Japan Relations, Harvard University, p. 70.